



Implementation of Senate Bill 6

*A Presentation to the House Health & Government
Operations Committee*

March 26, 2007

Rex Cowdry, M.D.

Executive Director

Maryland Health Care Commission

Small Employer Health Benefit Plan Premium Subsidy Program

The purposes of the program are to:

- provide an incentive for small employers to offer and maintain health insurance for their employees;
- help employees of small employers afford health insurance premium contributions;
- promote access to health care services, particularly preventive health care services that might reduce the need for emergency room care and other acute care services; and
- reduce uncompensated care in hospitals and other health care settings.

Small Employer Health Benefit Plan Premium Subsidy Program: Eligibility Requirements in SB 6

At the time of initial application, the business meets the following requirements:

- The business has at least 2 and no more than 9 eligible employees
 - 30 or more hrs/wk
- The business has not offered insurance to its employees in the most recent 12 months
 - Corollary: Must have been actively engaged in business for 12 months
- The coverage purchased must have a wellness benefit
- The average wage of the eligible employees is less than an amount determined by the Commission

Subsidy Design Team

The Governor and Administration

The General Assembly

- Members of the Health and Government Operations Committee
- Members of the Senate Finance Committee

Consultants - Academy Health / RWJ

- Jonathan Gruber, MIT – health economics consultation
- Mercer – John Welch – Section 125 plans and design advice

Carriers

Third-Party Administrators

Brokers/agents

Small business owners

Small business associations (NFIB, Chamber, Retailers and Restaurant Assn)

Maryland Health Care Commission

- Bruce Kozlowski, Director, Center for Health Care Financing and Policy
- Ben Steffen, Director, Center for Information Services and Analysis
- Janet Ennis, Chief, Small Group Market
- Nicole Stallings, Director, Government Relations
- Mel Franklin, AG's office
- Plus: Administration, AG, Contracting, Regulations

Other State Government Agencies

- DHMH (design, implementation, financial management of SF)
- MIA (wellness, regulations)
- HSCRC (regulations)
- Comptroller (subsidy payments, auditing family income)
- DLLR (quarterly wage reports as audit check, information dissemination)
- DBM (financial management and budget)
- DBED (information dissemination)

Design fundamentals:

- **The program should have stability and continuity**
 - Eligibility should not disappear or phase out unless firm grows and prospers
 - There should be no “cliffs” – abrupt changes in subsidy as firm grows or prospers
- **The program should be simple and easily explained**
 - Wages rather than income
 - Average wage rather than median
 - Subsidy applies equally to all employees – no separate employee income test except for family coverage
- **The program must be affordable and “efficient” in an economic sense**
 - Requires targeting a subset of small businesses
 - Requires targeting the program to employers not currently offering insurance – a tradeoff between efficiency and fairness
- **The program should be designed to:**
 - Provide employers with choices of plans
 - Simplify administration and keep administrative costs low
 - Maintain established business relationships, processes, and incentives
 - Assure that subsidies are seamlessly integrated into routine billing and payroll deductions
 - Assure effective auditing of the subsidy
 - Minimize bureaucracy while preventing fraud and abuse

Implications for Program Administration

Subsidize a variety of current small group market health plans rather than contract with a single carrier

Administer the subsidies through premium reductions, not through checks to employers and employees

- Basic agreement is with the carriers, who are free to designate fiscal agents to handle administration and billing
- The subsidy is paid to the carrier
- Total subsidy is passed through to the employer as a reduced group premium
- The subsidy is shared between employer and employee in proportion to the amount each has contributed toward the premium
- Employers in turn must agree to pass through the employee's share of the subsidy in the form of lower payroll deductions for health insurance

How will the subsidy be delivered?

Current design, subject to change

Application

Apply for insurance and subsidy
Include info re wages and existing coverage for all employees

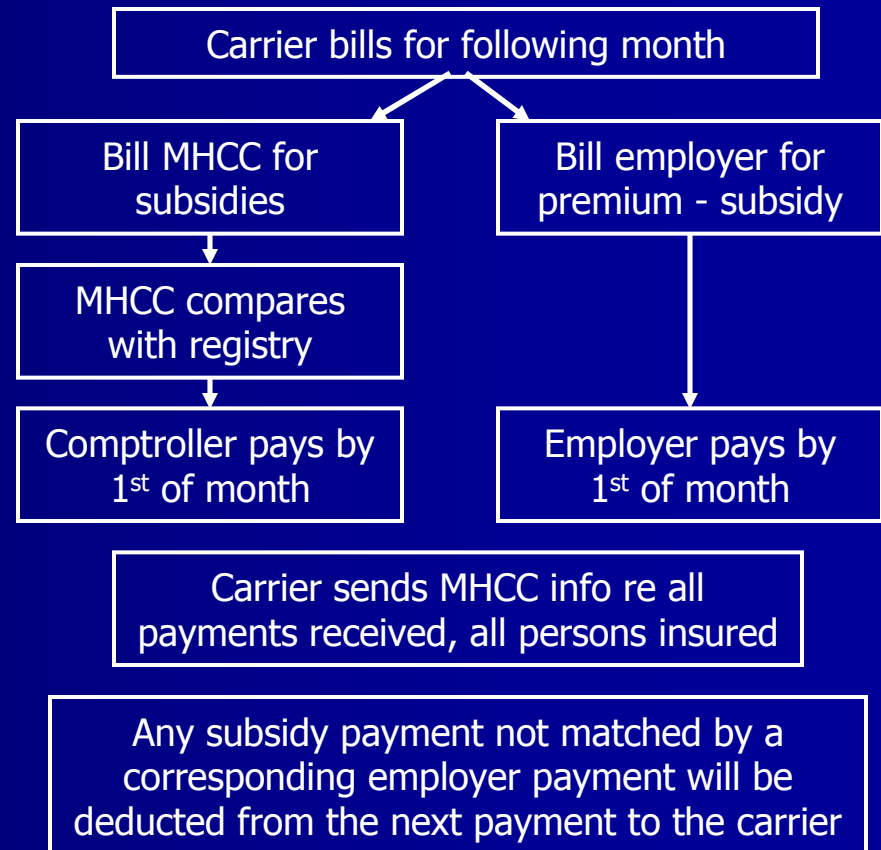
MHCC registry confirms

- The subsidy rate for each type of coverage (indiv, +children, +spouse, family)
- The total premium subsidy amount passed through to the employer
- The subsidy to be passed through to each employee through lower payroll deductions

Employer begins payroll deductions for employee's share of premium

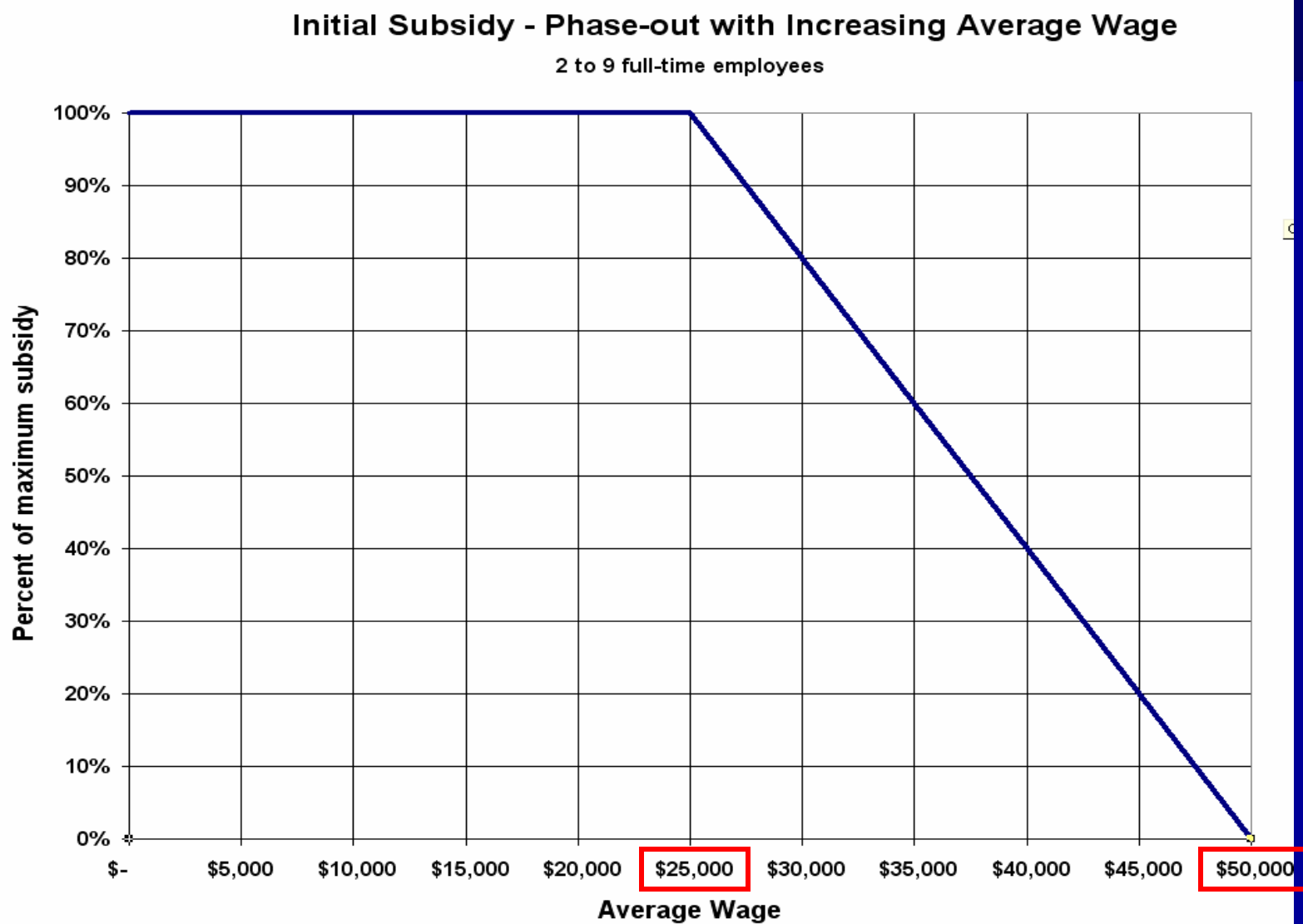
Employer establishes Section 125 plan

Monthly payment and reconciliation



How Will the Subsidy Be Calculated?

Design based on models developed by Jonathan Gruber
Consultation supported by AcademyHealth / RWJ grant



Amount of premium subsidy (proposed - subject to final regulations)

- SB6: Either 50% of the premium or an amount set by the Commission, whichever is lower
- Proposed “limiting amounts” for FY2009
 - Based on recent HMO premiums “as purchased” in SGM

Average wage	Employee only	Employee + child	Employee + spouse	Family
<\$25,000	\$2000	\$3000	\$4000	\$5000
\$30,000	\$1600	\$2400	\$3200	\$4000
\$35,000	\$1200	\$1800	\$2400	\$3000
\$40,000	\$800	\$1200	\$1600	\$2000
\$45,000	\$400	\$600	\$800	\$1000
\$50,000	\$0	\$0	\$0	\$0

How Will the Average Wage Be Calculated?

- Information provided by employer
 - Hourly x avg. hours/wk x 52
 - Add weekly tip income x 52
 - Annual salary
- The owner/partner dilemma
 - The goals are to assist the small business and to get employees insured
 - The owner's income should not immediately disqualify a low-wage firm
- Options:
 - Use the median wage
 - Use the average wage and
 - Discount the owner's / partner's income entirely
 - Use a “trim” amount for the owner's income - \$60,000

Examples of Average Wage Calculations

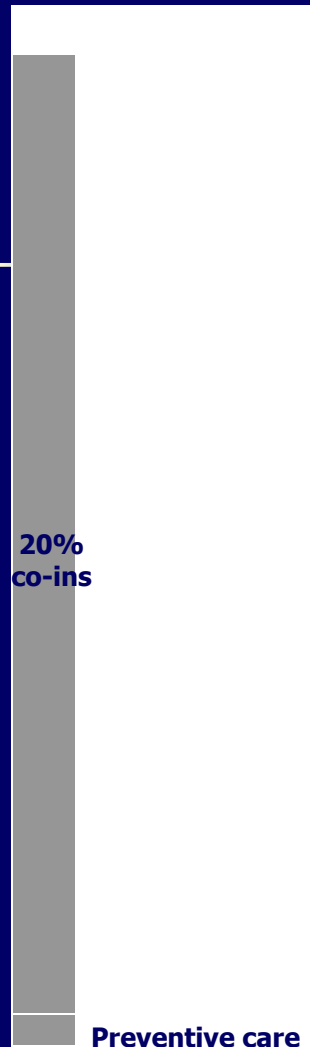
	\$120,000	\$60,000	\$60,000	\$35,000
	\$32,000	\$32,000	\$60,000	\$32,000
	\$26,000	\$26,000	\$60,000	\$26,000
	\$18,000	\$18,000	\$20,000	\$18,000
	\$17,000	\$17,000		\$17,000
Average	\$43,200	\$31,200	\$50,000	\$25,600
Subsidy – empl. only	\$540	\$1,560	\$0	\$1,960

The Special Case of Health Savings Accounts

■ = Patient OOP

\$35,400
max OOP
reached

Increasing health expenditures =>

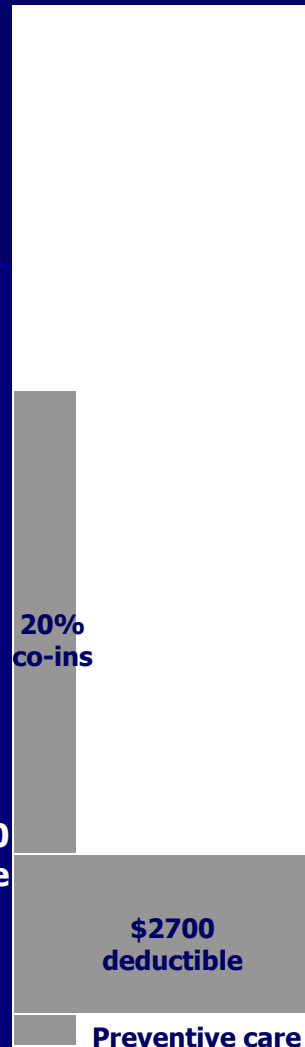


Standard HMO

\$3900 premium
\$1950 subsidy

\$15,450
max OOP
reached

\$2700
deductible

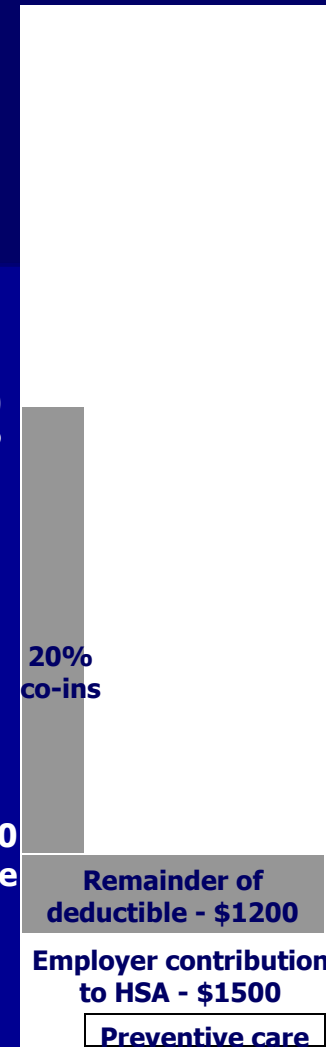


**High-deductible
HMO with HSA**

\$2400 premium
\$1200 subsidy

\$15,450
max OOP
reached

\$2700
deductible



**HD HMO/HSA - employer
contributes premium savings to HSA**

\$2400 premium + \$1500 HSA
\$1950 subsidy

The Special Case of Family Coverage

- We expect the great majority of coverage to be employee only
 - Spousal coverage is relatively expensive, probably due to risk selection
 - Employers subsidize family coverage less generously, if at all
- Nonetheless, subsidizing dependent coverage would be as efficient as the employee subsidy, and we wanted to encourage coverage of the entire family.
 - Note that some of the children are MCHIP eligible
- If eligibility were solely wage-based, a low-wage spouse could get subsidized coverage for a high income family
 - Therefore, employees will have to attest to having a family income below \$75,000* to be eligible for a subsidy for the dependent coverage

** This figure has been updated from the original presentation to the Health & Government Operations Committee on March 26, 2007.*

Employer role

- Select an agent/broker, who will handle the subsidy application
- Provide information about the business and its employees
 - Quarterly wage reports and current wages/salaries
 - Any previous health insurance offered by the business
- Select a health plan with a wellness benefit
 - We anticipate that both HMO and PPO plans will be available, and that some will be high-deductible plans with HSAs
- Select a percentage of the premium as the employer contribution
 - Employer contributions toward dependent coverage are allowed and are subsidized, but are not required
 - If an HSA plan is chosen, decide whether to contribute premium savings to the HSA (employer contributions to the HSA are eligible for the subsidy)
 - Contribution should be high enough to achieve the 75% participation rate required by insurers
- The employer receives the entire subsidy in the form of reduced premiums
 - the State pays the subsidy to the insurance company
 - the employee's share of the subsidy is passed through in the form of reduced payroll deductions
- The employer pledges to establish a Section 125 plan

Business

Maryland Small Employer Health Benefit Plan Premium Subsidy Program Application

Enter Maryland Employer Number:

Enter Federal Employer Number:

Company Name:

Address:

Address2:

City:

State:

ZIP:

Contact Person for the business:

First Name:

Last Name:

Phone:

Email Address:

Fax Number:

Please enter the type of business:

Carrier:

TPA - if any:

Agent/Broker:

Health Plan Choice:

☐ Check if plan is HSA-compatible

Start Date:

Median wage (enter value - automatic calculation needed):

Eligibility for the Small Employer Health Benefit Premium Subsidy Program:

- ☒ This business has at least 2 but no more than 9 full-time employees (at least 30 hours per week)
- ☒ This business is located in Maryland and has been in operation for at least 12 months.
- ☒ No owner of this business has more than a 40% ownership share in another Maryland business with more than three employees.
- ☒ This business has not made any contribution toward health insurance for the owner or any employee for at least 12 months.
- ☒ The health plan includes a wellness benefit - a Health Risk Assessment with feedback and some form of incentive for prevention or health promotion

Employee Contribution Summary:

	Annual premium	% contribution by employer
Employee only	\$3,800	70 %
Employee + child	\$6,410	% of additional cost contributed by employer
Employee + spouse	\$8,950	
Family:	\$10,420	20 %
Employer's Annual Contribution to HSA	\$0	Also eligible for subsidy

Enter all current employees. Include all employees listed on the last Quarterly Wage Report. If no longer employed, enter zero salary and choose "no longer employed" under eligibility. Owners who work in the business should be listed and should enter their annual wage as either \$75,000 or the sum of any wages they were paid plus Schedule C net income, whichever is lower.

Last Name	First Name	SSN	DOB	Empl_Status	Wage (Annual, monthly, weekly, hourly)	Wage Period	Hours Per Week	Annualized wage (calculated)	Earnings - most recent quarterly wage report	Eligibility	Any Insurance in past 3 mos?	Coverage chosen by employee	Premium	Total Subsidy	Subsidy passed to employee	Net cost to employee
Brown	Franklin	234-56-7890	2/12/1982	Full-time ()	\$7.50	Hourly	35	\$13,650	\$5,350.00	Yes	Not insured in	Employee + spo	\$8,950	\$4,000	\$2,351	\$2,909
Jackson	Ralph	737-98-1983	1/1/1974	Part-time ()	\$9.25	Hourly	35	\$16,835	\$4,400.00	Yes	Not insured in	Employee only	\$3,800	\$1,900	\$570	\$570
Hadley	Jane	389-80-0218	4/4/1978	Owner	\$75,000.00	Annually	40	\$75,000	\$0.00	Yes	Yes, individual	Family	\$10,420	\$5,000	\$3,088	\$3,348
Parsons	Michael	787-98-3040	1/2/1988	Full-time ()	\$7.25	Hourly	40	\$15,080	\$2,200.00	Yes	Not insured in	Declined	\$0	\$0	\$0	\$0
Monaghan	Sally	898-74-7477	9/9/1978	Full-time ()	\$11.00	Hourly	35	\$20,020	\$5,002.00	Yes	Yes, spouse's	Employee only	\$3,800	\$1,900	\$570	\$570
Smythe	Bret	653-78-9003	4/5/1982	Full-time ()	\$14.40	Hourly	40	\$29,952	\$7,455.00	Yes	Not insured in	Employee only	\$3,800	\$1,900	\$570	\$570
*								\$0								

	Premium	Subsidy	Prem after subsidy
TOTAL	\$30,770	\$14,700	\$16,070
Employer	\$15,654	\$7,551	\$8,103
Employee	\$15,116	\$7,149	\$7,967

Records: 1 of 6

For illustration only – subject to revision

Employer attestation (draft)

Maryland Small Employer Health Benefit Plan Premium Subsidy Program Initial Application

Employer Attestation (integrate into the application form)

- ☐ I have the authority to act on behalf of the business.
- ☐ I have reviewed the information on the application form. To the best of my knowledge and belief, the information is accurate.
- ☐ This business entity has been actively engaged in business in the state of Maryland for at least 12 months.
- ☐ Employees of any affiliated business have been included in this application, for purposes of determining eligibility for the subsidy.
Affiliated businesses are businesses eligible to file a single tax return.
- ☐ On a majority of days during the past 12 months, the business has had at least two and no more than nine eligible employees. An eligible employee is one who has an average work week of 30 or more hours. Owners/partners are counted as employees if they work 30 or more hours and will be insured through the small group policy.
- ☐ The average annual wage of employees is less than \$50,000.
In calculating the average annual wage, the annual wage of individuals working at the business who hold an ownership interest is the lesser of \$60,000 or the owner's adjusted gross income.
- ☐ I will pass through to my employees their share of the premium subsidy from the state of Maryland in the form of lower payroll deductions for the employee's share of the health insurance premiums.
- ☐ Within 30 days, I will establish a premium only Section 125 plan ("POP") or a more comprehensive Section 125 cafeteria plan.
- ☐ I understand that the Maryland Health Care Commission may employ an auditor to examine participating employers' records to assure the accuracy of statements made in their applications, and will cooperate fully with any such audit.

The Wellness Benefit

The wellness benefit is part of the carrier's benefit design, not a stand-alone employer-sponsored wellness program.

A qualifying wellness benefit must include:

- Health Risk Assessment (HRA)
- Education based on the HRA responses
- Financial incentive for prevention, health promotion, or disease management
 - Direct financial reward
 - Reduced cost sharing

Section 125 Premium Only Plan

- Allows employee premium payments to be excluded from both income tax and FICA tax
 - Substantial benefit to employees who pay taxes
 - Modest benefit to employers (no FICA tax on employee premium payments)
- Simple to establish, no annual reporting
 - Cost will be between \$0 and \$200 – easily recaptured through FICA savings
 - Establish plan and notify employees
 - No filing of documents or reports required
 - Keep plan document on file
 - Review the plan if the Federal law changes
 - Make adjustments to payroll
- Contract with Mercer
 - Materials, PowerPoint, community meetings
- Carriers and TPAs may provide as additional benefit

Expected questions:

- Is this subsidy time-limited?
 - No – the Governor and the General Assembly intended this to be an ongoing program
- What happens when the program reaches its maximum size (initially \$10 million)?
 - The subsidy for each participating business will be capped at its then-current total subsidy amount
- What happens if my average wage increases?
 - The income limits in the subsidy table will be adjusted annually for inflation
 - Subsidies will be adjusted annually at policy renewal to reflect the firm's average wage, but the gradual phase-out from \$25,000 to \$50,000 assures that the subsidy also phases out gradually as wages increase

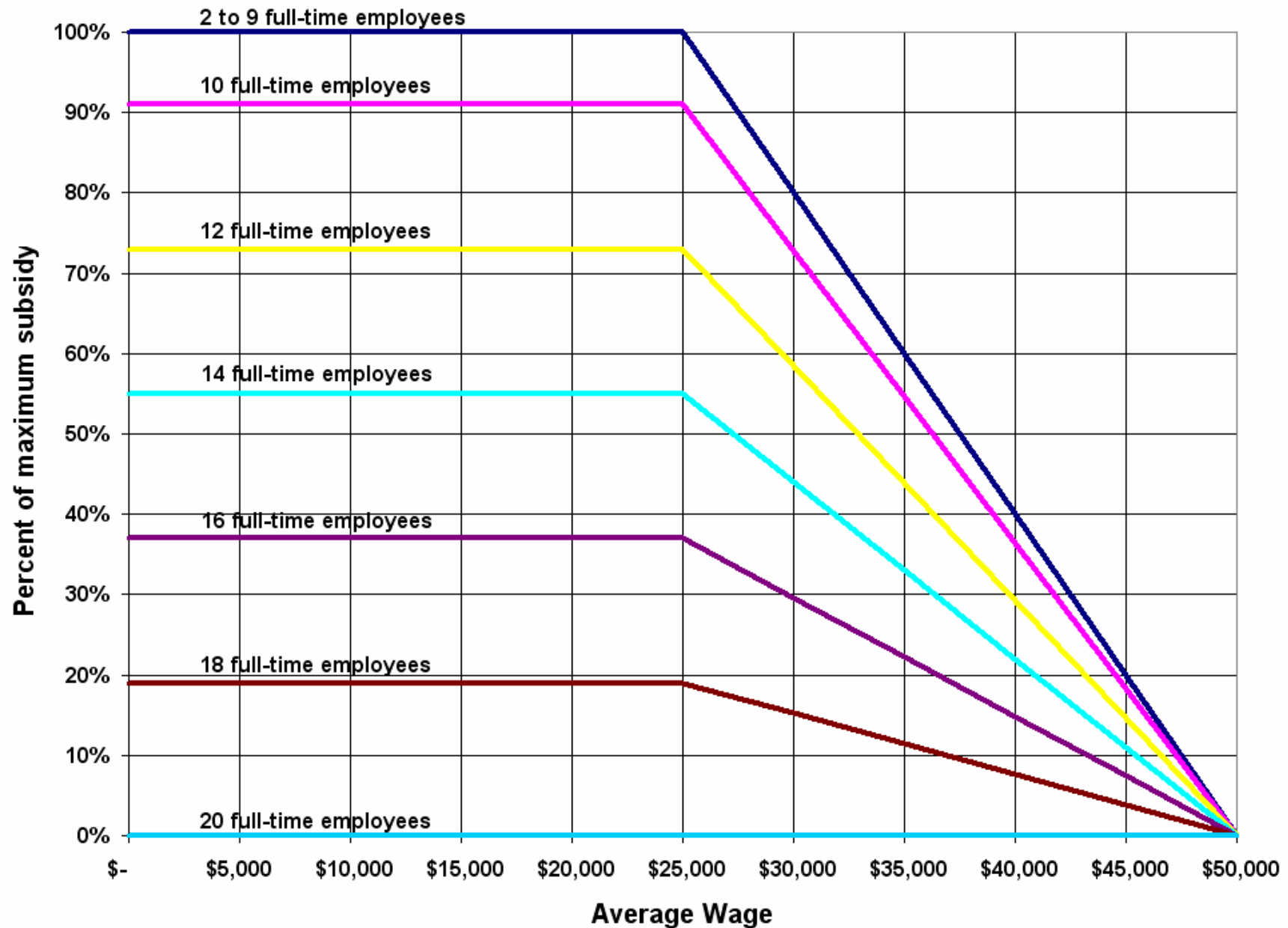
Expected questions:

- What happens if my firm grows?

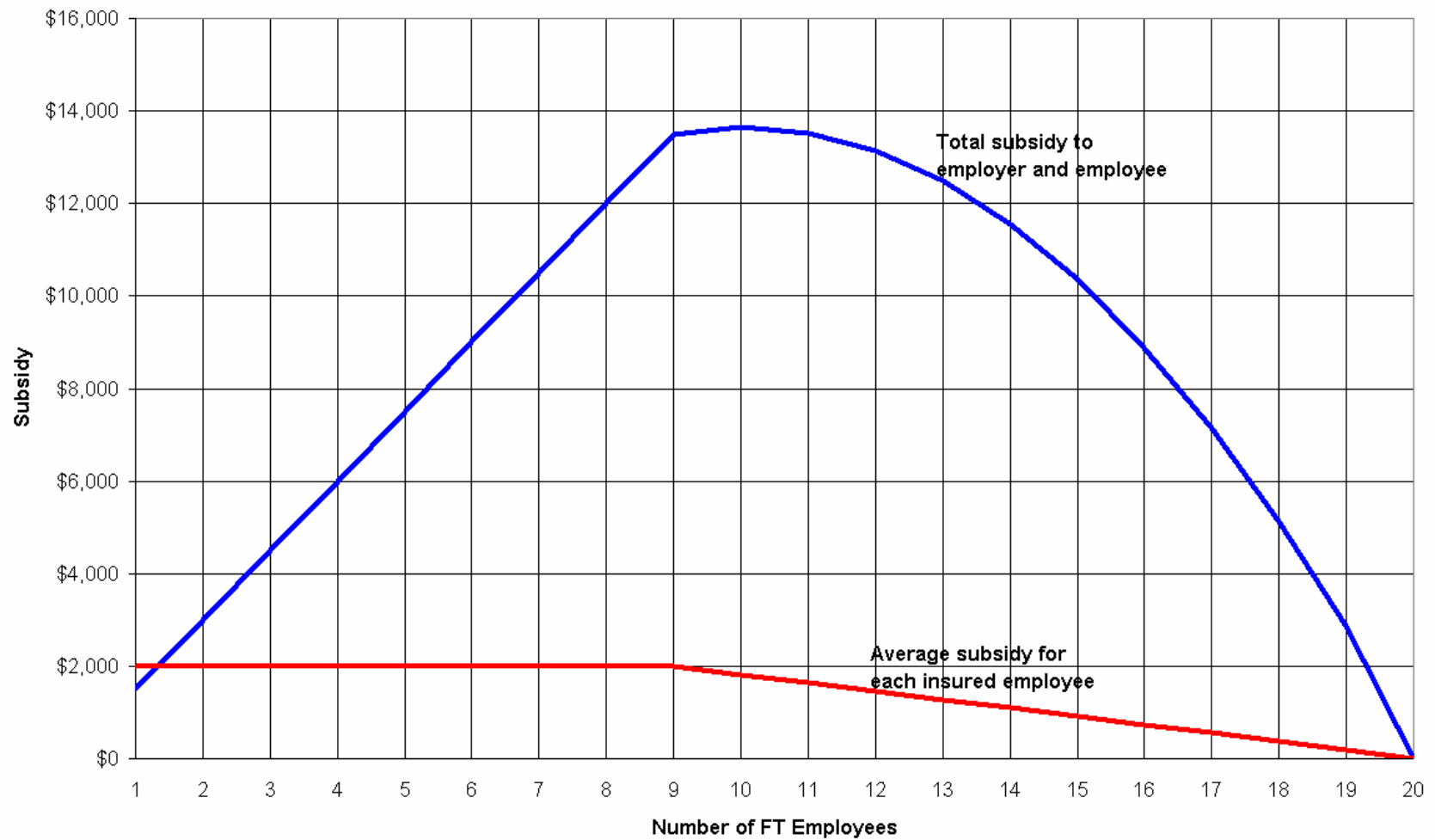
- Individual firms qualify as program participants based on their size at the time of application
- As long as the program as a whole is not capped, new employees are eligible for the subsidy.
 - During the current policy year, the business pays the same per employee premium and receives the same per employee subsidy that apply to other employees.
- At the time of policy renewal:
 - The firm's age distribution will be used to determine a premium for the next year.
 - The firm's average wage will be recalculated and used to determine the maximum subsidy for the next year
 - If the firm has ten or more employees, a further adjustment will be made based on the number of employees, so that the subsidy phases out between 10 and 20 employees.

Phase-out of Subsidy with Increasing Average Wage and Size

Adjustments for average wage and size are made only at time of policy renewal



Subsidy as Size of Business Increases
Assuming \$2000/insured employee and 75% takeup



Marketing & Outreach

■ Activities to Date

- WYPR Interview – Sheilah Kast (February 6, 2008)
- NFIB Focus Group (February 11, 2008)
- Submitted proposed wellness regulations to AELR (February 21, 2008)
- Presentation to the Baltimore Health Underwriters Association (March 5, 2008)
- Ongoing meetings with carriers, brokers and TPAs
- Consultation with similar programs in other states
 - *CoverTN*
 - *Insure Montana*
- Briefing of the Commission and HGO

■ Upcoming Activities

- Small Employer Subsidy Program Page on MHCC web site
- Presentation at the CareFirst BCBS Broker Council (March 28, 2008)
- Presentation at the Annual MAHU/NAIFA Expo (May 15, 2008)
- Hispanic/minority business outreach
- NFIB town meetings (in partnership with Chamber of Commerce, Maryland Retailers Association and Restaurant Association of Maryland)